THE PRIVATE PENSION SECOND PILAR IN ROMANIA – EVOLUTION AND STATISTICS

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Abstract: The Second Pillar has turned 10 years of functioning, time in which it has been operating efficiently, transparently, without any syncope, registering excellent investment results, highly appreciated on international level. By contributing on a compulsory basis to the Second Pillar, the Romanians are the owners of their private pensions, of their future, the same as other Europeans from countries, where the participation in private pensions is compulsory (by law) or quasi compulsory (through different institutional arrangements patronage – trade unions or trade guilds): Norway, Great Britain, Switzerland, Denmark, Finland, Sweden and others. The system of compulsory private pensions has turned in the ten years of activity into a support pillar for a whole generation. The pension industry of the second pillar of Romania has become extremely competitive in Europe, offering the best real efficiencies, according to specialized institutions. Thirdly, the contributors’ funds return into the Romanian economy, generating economic activities, income for the state and new employment.

Key words: Second Pillar, private pensions, contribution, authorities, pension system

INTRODUCTION

When, a decade ago, the Second Pillar was introduced as a fundamental element of the Romanian system of private pensions, the intention of this step was obvious – and namely to offer the active citizens of our country a chance to build a new source of income on retiring and to reduce as much as possible the negative effects of the ageing of the population, a phenomenon, which creates real difficulties for the public pension system. [16]

Subsidiary, the promoters of this solution emphasized the future capacity of the pensions funds to create a solid source of capital for backing up the national economy. [11]

Within the OECD (Organisation for Economic Co-operation and Development), the organisation of the states with highly developed economies, the pivate pensions funds administer net assets of approximately 35 thousands of billions of Euro, that is more than 120 % of the cumulated Gross Domestic Product of these states. [10]

To gather this significant wealth, the citizens of the developed countries contribute with importantant percentages to the private pension systems: in Denmark 12 % of their incomes, in Switzerland 9 %, in Holland und Great Britain with 8 % and so on. [15]

In Romania, the contribution to the Second Pillar grew slowly from 2 % to 5.1 % (according to the legal provisions it should have grown with 0.5 %/ year), then it was reduced to 3.75 % of the gross income of the participants to the pensions funds. In 2016 the contribution should have attained the level of 6 % of the gross income. [13], [16]

MATERIALS AND METHODS

Insurances are economic-social activities, which consist in the protection of natural and legal persons, in their capacity as insurance holders, against different risks and which is performed by specialized companies in their capacity as insurers. For this study I used different methods of work like data gathering of the studied period, data summarization
and their analysis. I monitored the target compliance and finally I evaluated the results I have obtained. [5], [7]

**RESEARCH RESULTS**

The Second Pillar presently includes about 7 million of participants in the pension funds, the amount cumulated in their accounts being over 38 billion Lei, with a total benefit of about 7 billion Lei. According to the same data, the average value of an account is approximately of 5,500 Lei, while more than a million of participants have more than 10,000 Lei in their accounts. For this first decade, the yearly average efficiency of the Second Pillar rises to 9.1%. [2], [16]

The investment results obtained by the pensions funds of the Second Pillar were very good, actually among the best within the UE. Not only the operators’ representatives in Romania are of this opinion, but also analysts of an incontestable reputation. [6]

Thus, the BetterFinance report entitled "The Real Return 2017" places the Second Pillar of Romania on the first place of a panel of 15 UE member states for the third consecutive year. The best results obtained by the private pensions funds have been registered in Romania, with a real solid efficiency of +5.3 % for a period of (only) 9 years, notes the mentioned report, referring to the real efficiency (adjusted to the inflation and all commission charges). Figure 1 presents the evolution of the Second Pillar during the period between 2008 – 2017. [1], [9]

![Figure 1. Second Pillar – Its evolution regarding the participants and the net assets between 2008 - 2017
Source: Processing data XPRIMM Insurance Report [13]](image)

On the other side, the OECD report, "Pension Markets in Focus 2017", regarding the performances of pension systems worldwide during the last ten years, shows that the funds of the Second Pillar from Romania have occupied the second place of the 38 European countries analysed, with a real efficiency (adjusted to the inflation, but not to the commissions) of 6.8 % (average per year), being surpassed only by the similar funds from Croatia. [8], [10]
A Steeplechase

In the 10 years of its existence the private pension system was perhaps the only financial market, which worked without any failures’, the participants’ savings never seemed or have been in danger for a moment. [3], [12]

And yet, if the relationship between participants – pension funds – surveillance authority things went well, not as smooth developed the relationship with the administration. Up to 2017, the system has already experienced three phases of contribution freeze, so that the calendar of the statutory contribution advances, has been substantially exceeded. Justified by the budget pressions, induced by the financial crisis, the delay has already affected not only the business volume of the private pensions administrators, but also - more important – the beneficiaries’ interests, whose personal accounts have accumulated lesser assets.[4], [16]

Figure 2. Second Pillar – the average value of an account depending on the amount of contributions transferred on September 30, 2017

Source: own data processing

Figure 3. Second Pillar – Participant Structures on Age Groups and Average Value Account on September 30, 2017

Source: Processing data XPRIMM Insurance Report [13]
The adopted decision, unprecedentedly, to curtail the contribution from the actual percentage of 5.1% to 3.75% (instead of advancing to 6%, according to the legal provisions), starting with 2018, will affect on long term the viability of the private pension system. [16]

Thus, this decision is to be translated into smaller private pensions, at least with 20% for the future pensioners and a reduced potential in financing Romanian business through the capital market, assert the APAPR/ the Association of the Private Administered Pensions in Romania) representatives. [7]

Beyond all declarations of the administrative representatives who went public – contradictory, confused or downright ignorant –, there is only one motivation, and namely the Government is in desperate need to maintain the budgetary deficit within the limits of the UE conventions, as a consequence of the wage increase and the tax relaxation measures. [9], [14]

Reactions

According to the CFA/ Chartered Financial Analysts of Romania, the actual pensions are paid in ratio of two thirds from the contributions of the actual employees and a third of governmental loans. Therefore, there will be more and more pressures upon the budget of the state social insurances and the private pensions will be a vital source for millions of pensioners to have a decent life. [11]

Figure 4. Payments to Participants of the Second Pillar (September 2016 - September 2017, mil. Lei )

Source: own data processing

Consequently, a weaker Second Pillar will generate major effects in future. The future pensioners will lose not only certain amounts, which will not be transferred into their accounts, about 300 million Euro (calculated according to the value of the contributions of 2016), but also because of the lack of efficiency of the respective contribution. [2], [15]

In contradiction to the opinions vehiculated in the public area, the public pensions do not offer an efficiency to those, who transfer the compulsory contributions, as these contributions are not invested in their individual accounts; they are used for payments of current liabilities, as shown in the quoted document. In other words, the difference between the First and the Second Pillar regarding pensions makes the difference between living on credit and to save and invest on long term, in order to create additional incomes. [16]
We regretfully ascertain, that the authorities have ignored the participants’ interests, preferring to adopt an unfortunate solution, which will affect the living standard of millions of Romanian pensioners, affirms a Communiqué of the AURSF – Association of the Romanian Users of Financial Services, emphasizing the fact, that the Romanian state has assumed the legal obligation to increase the contribution level to the Second Pillar up to 6 %. [10]

Nor did the international opinion ignore this aspect. Romania was able to create an excellent system of private pensions and should not start to destroy it by reducing the level of contribution. The useful pension reforms ground upon a thorough analysis and on long term targets regarding their adequacy and durability. [9], [11]

The private pensions have fulfilled these targets and it is extremely important to continue this policy on long term. Instead of reducing the contributions, the Government should raise them in accordance with the long term plans. This would enhance the confidence of the whole pension system, which is vital for any policy oriented towards the future. [5], [12]

CONCLUSIONS

86% of the Romanians know about the existence of the Second Pillar, as well as they widely know their rights as participants to the Second Pillar. Of them, 7 out of 10 are aware of the fact, that the funds accumulated in the individual accounts of the Second Pillar are their property, guaranteed by law. Likewise, 5 of 10 understand that all contributions to the Second Pillar are important for the Romanian economy and that this money is inheritable in the event of a tragic event before the legal retiring age.

The Second Pillar is perceived as a transparent saving instrument and is highly trusted by the population. 55% of the participants in the study have declared that they have confidence in the administrators of the pension funds, because they invest optimally their contributions.

The participants in the Second Pillar are pleased with the interaction with the fund administrators for many reasons: the registration in the Second Pillar process was simple, the administrators offer regularly informations concerning the status of the Second Pillar, the accumulated contributions are permanently reinvested, the risk of bankruptcy is low, the customer support service is very good.

Most of the Romanians are concerned with regard to their pension. Their anxiety comes from a precarious saving background. 51% of Romanians do not succeed in saving money, their saving strategies are rather aspirational than a reality, which means, that the Second Pillar represents the only saving method for them

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